

April 24, 2006

HONORABLE MAYOR AND CITY COUNCIL:

I am pleased to present the 2006-2007 Proposed Capital Budget and the 2007-2011 Proposed Capital Improvement Program (CIP) for the City of San José. The Budget and CIP presented in this document guide the City in the planning, scheduling, and budgeting of capital improvement projects during the next five-year period. This overview highlights the major issues associated with this CIP as well as the major capital investments proposed within each of the six City Service Areas (CSAs) and 15 Capital Programs.

The 2007-2011 Proposed CIP was developed in coordination with all of the CSAs and City departments responsible for capital projects. As required by City Charter, this document will be provided to the Planning Commission for its review and comment to the City Council.

The capital investments proposed over the next five years are substantial with a 2006-2007 Proposed Capital Budget of \$1.07 billion and a 2007-2011 Proposed CIP of \$2.57 billion. This marks the sixth year that the annual budget exceeds \$1 billion and the five-year plan is in the multi-billion dollar range. Based on the timing of investments, the 2006-2007 Proposed Capital Budget reflects a decline of 9% from the 2005-2006 Adopted Capital Budget of \$1.17 billion, while the 2007-2011 CIP is 23% higher than the 2006-2010 Adopted CIP of \$2.10 billion. It should be noted, however that once funds to complete existing projects are carried over (rebudgeted) from 2005-2006 to 2006-2007 as part of the Adopted Budget, the funding in 2006-2007 is expected to be comparable to the 2005-2006 level. The five-year plan is higher than last year primarily as a result of revisions to the timing of Airport improvements.

The City is now in the second half of the *Decade of Investment*, which is transforming much of the City's infrastructure. Major improvements continue in the City's parks, community centers, libraries and public safety facilities, primarily as a result of voter-approved bond measures that will generate a total of \$599 million for these purposes. The expansion of the Airport will deliver a facility that meets the needs of both customers and the airlines in a cost effective manner. Substantial investments in the City's utility infrastructure are also underway, designed to ensure the continued safe and efficient operation of these facilities and the capacity to address future growth.

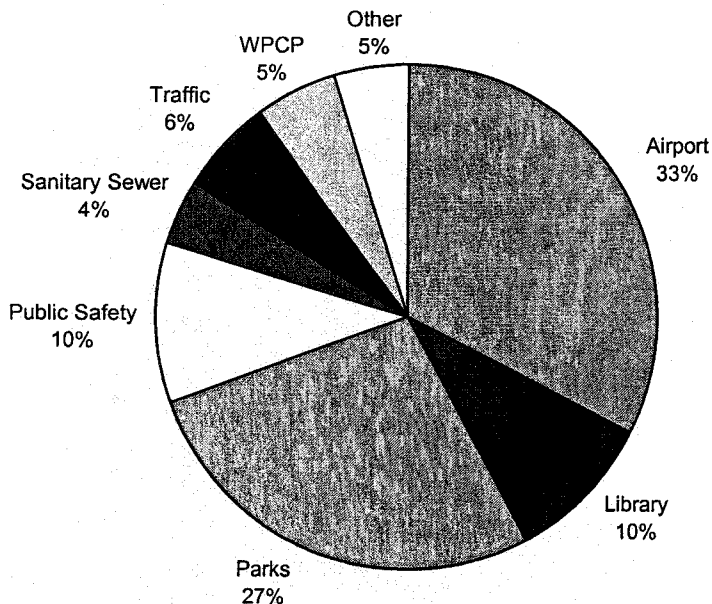
The City's ability to dedicate this level of resources is due, in large part, to a number of specific, one-time funding sources that support specialized efforts. For instance, voter-approved bond revenues are earmarked for parks, library, or public safety purposes and the Airport expansion is primarily funded by the issuance of debt that will be supported by Airport revenues. In addition, many of the utility infrastructure improvements are funded by user fees. While certain areas of the City's infrastructure are receiving much needed improvements, in other areas there remains a substantial backlog of unmet capital needs, most notably in the Traffic Capital Program.

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Major Capital Investments

The CIP is comprised of 15 capital programs. Following is a breakdown of the major programs:

2006-2007 Proposed Capital Budget



In the 2007-2011 Capital Improvements Program, investments target infrastructure improvements throughout the City's neighborhoods, including parks, community centers, libraries, storm, and sanitary sewer systems, and public safety facilities. These are the facilities that are visited and/or utilized by every resident and visitor of San José.

In November 2000, General Obligation Bond measures were approved to support library projects (\$212 million) and parks projects (\$228 million). An additional \$159 million in General Obligation Bonds were authorized by the voters in 2002 to support Public Safety facilities. All of the bond projects are expected to be completed in the next five years and this Proposed CIP allocates a combined \$344.0 million in Bond funds for these purposes. Recent cost escalation has impacted the overall cost of these projects. In order to address these increased costs, a combination of scope management,

Major Projects to be Completed over the Next Five Years

2006-2007 Projects

Cambrian Branch Library
City Hall Off-Site Parking Garage
Emma Prusch Memorial Park
Fire Station 33 (Communication Hill)
Fire Station 34 (Berryessa)
Hillview Branch Library
Senter Road: Tully to Singleton

2007-2008 Projects

Airport Temporary Terminal C
Blossom Hill/Monterey Road Interim Pedestrian Improvements
Branham Lane Improvements
Edenvale Branch Library
Fire Station 35 (Cottle/Poughkeepsie)
Joyce Ellington Branch Library
Pearl Avenue Branch Library
Rebuild Fire Station 2
Roosevelt Community Center
Water Pollution Control Plant Reliability Improvements
West Side Airfield Overlay
Willow Glen Branch Library

2008-2009 Projects

Airport Terminal A Improvements
Airport North Concourse
Public Safety Driving Training Center
East SJ Carnegie Branch Library
Fire Station 36 (Silver Crk/Yerba Buena)
Happy Hollow Park & Zoo
Mayfair Community Center
Santa Teresa Branch Library
Skatepark at Lake Cunningham
SJSU to Japantown Pedestrian Corridor

2009-2010 Projects

Airport Terminal B Phase I
Bascom Community Center & Library
Calabazas Branch Library
Educational Park Branch Library
Fire Station 37 (Willow Glen)
Seventrees Branch Library
Solari Community Center
South San José Police Substation

2010-2011 Projects

Airport Terminal C Demolition
Almaden Road Sewer Rehabilitation
Transportation Incident Mgmt. Center
Southeast Branch Library

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Major Capital Investments (Cont'd.)

interest earnings on the bond funds, the use of contingency reserves in each fund, and supplemental funding from other sources, such as the Construction and Conveyance Tax Funds, is proposed. These funding solutions help ensure that the City can successfully deliver the remaining projects.

The Airport capital program remains the largest single component of the overall CIP. The 2007-2011 Proposed CIP reflects significant revisions from the 2006-2010 CIP based on the revised plan for the development of the Airport that was presented to the City Council in November 2005. The major revisions include extending the Master Plan completion to 2017 and limiting the cost to \$1.2 - \$1.5 billion. This plan will allow for facility and customer service improvements to proceed in a more economically viable manner and, at the same time, deliver some of these improvements sooner than planned.

Major investments also continue in the City's transportation, storm, sanitary sewer, and municipal water systems, the water pollution control plant, and the City's service yards.

Unmet Infrastructure Needs

Over the past six years, the City has been able to address a number of significant infrastructure needs throughout the City. However, there are other major infrastructure categories where the available funding for capital improvements is insufficient to address critical needs. With much of the City's infrastructure built in the 1960s and 1970s, the number of aging City facilities that require significant renovations or replacement is considerable.

The transportation system has the largest backlog of unfunded capital improvement needs. The available funding over the next five years falls well below even the minimum level necessary to address the City's basic transportation infrastructure needs. Over the next five years, for instance, street maintenance needs are estimated at \$170 million, while available funding in the 2007-2011 Proposed CIP totals only \$96 million. There are similar backlogs in almost every other category of the traffic maintenance program (streetlights, traffic signals, curb ramps, etc.). With this large disparity, the administration will continue to actively seek federal and State funds to augment the local funding available. The Proposed Traffic CIP also includes \$200,000 for a Transportation Needs Master Plan to provide an updated study of transportation infrastructure conditions, needs, funding options and community priorities. The 2006-2007 Proposed Budget does, however, contain a General Fund budget proposal that would add \$5.3 million on a one-time basis to begin to address the most critical transportation infrastructure maintenance needs, such as street maintenance or traffic signals.

Municipal facilities and convention and cultural facilities also have a significant backlog of infrastructure needs. For instance, there is almost \$9 million in deferred maintenance for City buildings (police, fire, community centers, industrial shops, and offices) and approximately \$8 million in capital improvements that have been identified for the City's various cultural facilities. With the persistent funding shortfalls in the recent years, the General Fund investment in these facilities has been negligible given the competing demands for these resources. In the 2006-2007 Proposed Budget, a \$1 million one-time allocation is recommended to start addressing the backlog

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Unmet Infrastructure Needs (Cont'd.)

of deferred facility maintenance at municipal facilities. These funds will be allocated to those facilities that do not have another available funding source for improvements.

For those facilities that have seen improvements in recent years as a result of one-time funds, most notably the parks, library, and public safety facilities, a sustainable capital replacement system needs to be developed to ensure that the new and remodeled facilities can be maintained over time. In the Parks Capital Program, for example, a portion of the Construction and Conveyance Tax Funds in each district and City-wide is proposed to be allocated annually to meet capital replacement needs. To the extent possible, the administration will be pursuing the development of capital replacement strategies for other categories of City facilities as well.

The systems that are supported by user fees, such as the water pollution control plant, the municipal water system, and the sanitary and storm sewer systems also have varying sizes of capital infrastructure backlogs that cannot be fully addressed with the current fees. Therefore, it is anticipated that rate increases in a number of categories (e.g. storm, sewer, and municipal water) will be necessary to fund the major improvements that will be necessary in upcoming years.

General Fund Operating Budget Impact

The large number of new and expanded facilities now beginning to come on-line bring with them a substantial price tag in terms of General Fund operating and maintenance costs. The 2006-2007 Proposed Operating Budget includes funding of \$3.7 million to operate new parks and library facilities that are scheduled to be operational next year. In addition, funding is included to start training fire personnel that will be necessary to staff two new stations that are coming on-line in 2007-2008. This level of investment is expected to increase significantly over the next five years as the remaining bond-funded parks, library, and public safety facilities come on-line.

As detailed below, General Fund operating costs for facilities included in the 2007-2011 CIP will total \$7.5 million in 2007-2008 and climb to \$26.7 million by 2010-2011. (Operating budget adjustments for facilities scheduled to come on-line in 2006-2007 have been incorporated into the Proposed Operating Budget.)

Projected General Fund Operating and Maintenance Costs

<u>Project Title</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
Fire Facilities	\$ 4,545,000	\$ 7,195,000	\$ 7,550,000	\$ 10,563,000
Library Facilities	2,825,000	4,514,000	8,428,000	10,256,000
Parks Facilities	232,000	2,159,000	4,529,000	4,896,000
Parks Facilities-Other Agencies	27,000	58,000	124,000	153,000
Police Facilities	26,000	376,000	753,000	789,000
Traffic Projects	(233,600)	(167,600)	(138,600)	(126,500)
Traffic Projects-Other Agencies	103,000	108,000	115,000	120,000
Total	\$ 7,524,400	\$ 14,242,400	\$ 21,360,400	\$ 26,650,500

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General Fund Operating Budget Impact (Cont'd.)

In the last few years, several strategies were implemented to defer or reduce operating and maintenance costs. These efforts included deferring the completion date for capital projects, using alternative staffing models, moderate reductions in the size of facilities, the development of joint library and community center facilities, and the implementation of capital projects that would reduce costs, such as energy efficient traffic signals.

Given the extent of the actions that have already been taken and the competing trend of rising construction costs, the Proposed CIP does not recommend significant additional project deferrals at this time. Our program focus is to deliver on the commitments to the public in regards to completing the park, library and public safety projects that were approved by the voters and are being funded by General Obligation Bonds. The additional costs associated with these facilities are therefore being factored into the General Fund Five-Year Forecast. The City will continue to analyze the overall complement of facilities and resources available to the public when determining future potential budget actions that may be necessary to balance the General Fund budget. As has been the case with the parks facilities, this may necessitate closing older City facilities as the new facilities are completed.

Staff will, however, continue to pursue measures designed to reduce the operating and maintenance costs for the City. In the Traffic CIP, for instance, investments continue to develop the most cost-effective traffic signals. The Parks CIP also includes funding for capital maintenance projects that reduce operating and maintenance costs. Joint interdepartmental facilities will also continue to be pursued, where feasible, in order to maximize integration and economies of scale.

CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

As a framework for its performance-based budget, each of the 15 capital programs has been aligned to one of the six CSAs. The chart below compares the 2006-2010 Adopted CIP with the 2007-2011 Proposed CIP for each CSA. The 2007-2011 CIP reflects growth of 23% from the current CIP, primarily as a result of an increase in the Transportation and Aviation Services CSA. The Airport and the Water Pollution Control Plant Capital Programs represents the majority of this growth with increases of \$407 million and \$106 million, respectively, from the 2006-2010 Adopted CIP.

Comparison of 2006-2010 Adopted CIP and 2007-2011 Proposed CIP By City Service Area

City Service Area	2006-2010 Adopted CIP	2007-2011 Proposed CIP	% Change
Community and Economic Development	\$ 10,710,000	14,167,000	32.3%
Environmental and Utility Services	286,185,000	388,409,000	35.7%
Neighborhood Services	508,370,000	528,448,000	3.9%
Public Safety	169,177,000	137,136,000	(18.9%)
Transportation and Aviation Services	1,010,472,000	1,434,383,000	42.0%
Strategic Support	111,477,000	69,629,000	(37.5%)
Total	\$ 2,096,391,000	\$ 2,572,172,000	22.7%

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA (CONT'D.)

The following discussion of significant issues and projects included in the Proposed CIP is presented by CSA.

COMMUNITY AND ECONOMIC DEVELOPMENT CSA

The Community and Economic Development CSA includes the Developer Assisted Projects Capital Program. This program supports the following CSA outcome:

- ✓ *Safe, Healthy, Attractive and Vital Community*

Developer Assisted Projects Capital Program

The Developer Assisted Projects CIP reimburses residential developers for construction of major City streets and encourages the undergrounding of existing overhead utilities. The objective of this program is to ensure that residential developments within San José include the construction of public improvements necessary to maintain or improve the infrastructure of the City. Following is a brief summary of the major projects in this CIP.

- ❑ ***Underground Utility Program:*** The underground utility projects are prioritized based on several criteria, the most significant of which is how much fee revenue has been collected within the proposed Underground District. The following projects are currently in design.
 - Saratoga Avenue – Route 280 to Kiely
 - Jackson/Taylor – 4th to 9th Streets
 - Stevens Creek – Calvert to Stern
 - Camden Avenue – Bascom to Leigh
 - Evergreen Park – San Felipe Road to Yerba Buena
 - Guadalupe Gardens (bounded by Coleman Ave, Route 880, and Guadalupe River)
- ❑ ***Median Island and Center Strip Paving:*** Reimbursements to developers are scheduled, including reimbursements for the Communications Hill and the Dairy Hill projects.

ENVIRONMENTAL AND UTILITY SERVICES CSA

The Environmental and Utility Services CSA includes the Sanitary Sewer System, Storm Sewer System, Water Pollution Control, and Water Utility Capital Programs. These programs support the following CSA outcomes:

- ✓ *Reliable Utility Infrastructure*
- ✓ *Healthy Streams, Rivers, Marsh and Bay*
- ✓ *Safe, Reliable, Sufficient Water Supply*

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2007-2011 CAPITAL IMPROVEMENT PROGRAM

CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA (CONT'D.)

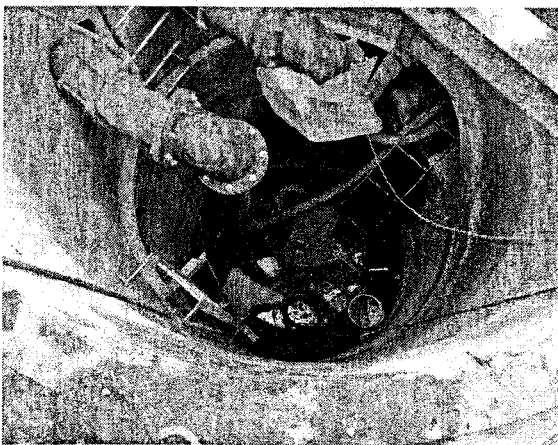
ENVIRONMENTAL AND UTILITY SERVICES CSA (CONT'D.)

Sanitary Sewer System Capital Program

The Sanitary Sewer System consists of approximately 2,100 miles of sewer mains ranging in diameter from 6 to 90 inches. The system serves the City, as well as three other jurisdictions, and conveys sewage to the Water Pollution Control Plant. The objectives of this capital program are to rehabilitate large diameter sanitary sewers; reduce water inflow and infiltration in sanitary sewers; improve local neighborhood sewers; extend sanitary sewers to new development areas; and develop a city-wide sanitary sewer master plan. Following is a brief summary of the major projects in this CIP.

- ❑ ***Edenvale Sanitary Sewer:*** \$29.0 million is programmed in the CIP.
- ❑ ***Fourth Interceptor:*** \$17.7 million is programmed in the CIP.
- ❑ ***84-Inch RCP Interceptor:*** \$9.1 million is programmed in the CIP.
- ❑ ***Central Interceptor Sewer:*** \$2.7 million is programmed in the CIP
- ❑ ***Neighborhood Sewer Projects:*** The following smaller sanitary sewer projects are programmed to improve conditions in specific neighborhoods:
 - Almaden Road (North) (\$2 million in CIP)
 - Almaden Road (South) (\$2.3 million in CIP)
 - Alum Rock Avenue (\$1 million in CIP)
 - Julian-Sunol Area (\$2.2 million in CIP)
 - Monterey-Riverside (\$1.6 million in CIP)
 - Union/Almaden Oak (\$1.5 million in CIP)

Storm Sewer System Capital Improvement Program



Willow Street Storm Pump Station Project

The purpose of the storm sewer system is to collect storm water and convey it to nearby creeks and rivers. In conjunction with the Sanitary Sewer System Capital Improvement Program, the Storm Sewer System CIP will remove cross-connections between the two systems.

In accordance with the City's General Plan, the goal of the Storm Sewer System CIP is to reduce the risk of drainage-related surface damage and protect the quality of storm water runoff. The City is responsible for the design and construction of

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA (CONT'D.)

ENVIRONMENTAL AND UTILITY SERVICES CSA (CONT'D.)

Storm Sewer System Capital Improvement Program (Cont'd.)

facilities for the conveyance of surface runoff in the City's Urban Service Area to adjacent stream channels. However, the City is not responsible for the design and construction of flood control facilities and the modification and maintenance of stream channels, which are under the purview of the Santa Clara Valley Water District and the U.S. Army Corps of Engineers.

A three-year, 4.5% annual rate increase in the Storm Sewer Service Charge was approved by Council in June 2002 as a strategy to supplement the funding for the Storm Sewer System CIP. In June 2005, Council approved the extension of this strategy. This CIP assumes the 4.5% rate increase will continue through the following five years. This would build in predictable, measured adjustments in service charges to continue a modest investment in the capital infrastructure and ensure the fiscal health of the Storm Sewer Operating and Capital Funds. Following is a brief summary of the limited number of projects possible in this CIP with the current rate structure:

- ❑ ***Albany-Kiely Storm Drainage Improvement, Phases III and IV:*** \$3.0 million is programmed in the CIP for the ongoing rehabilitation and replacement of pipelines.
- ❑ ***Chateau Drive Storm Drain Improvement, Phases I and II:*** \$1.3 million is programmed in the CIP.
- ❑ ***Outfall Rehabilitation:*** \$300,000 is programmed in the CIP for the rehabilitation or repair of storm outfalls into local creeks.
- ❑ ***Ross – Guadalupe Storm Drain Improvements:*** \$400,000 is programmed in the CIP.
- ❑ ***Storm Drainage Improvements – Special Corridors:*** \$500,000 is programmed in the CIP for improvements along pedestrian corridors to schools, neighborhood business districts, or public facilities.
- ❑ ***Storm Pump Station Rehabilitation and Replacements:*** \$500,000 is programmed in the CIP toward the replacement or rehabilitation of various storm pump stations determined to be of high priority.
- ❑ ***Willow Glen-Guadalupe, Phase III:*** \$1.6 million is programmed in the CIP for the ongoing rehabilitation and replacement of pipelines serving the Willow Glen – Guadalupe storm drain system.

Water Pollution Control Capital Program

The San José/Santa Clara Water Pollution Control Plant (WPCP) is a regional wastewater treatment facility serving eight tributary sewage collection agencies, including municipalities and sanitary sewer districts. This CIP focuses on preserving the WPCP infrastructure and capacity improvement projects. In order to maintain the program represented in this document, this CIP assumes rate

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA (CONT'D.)

ENVIRONMENTAL AND UTILITY SERVICES CSA (CONT'D.)

Water Pollution Control Capital Program (Cont'd.)

increases will also continue annually beyond the three-year 4.5% rate increase that was approved by Council in 2004 for the Sewer Service and Use Charge Fee. At least this level of annual increase will be necessary to fund major capacity improvement projects and critical projects at the Plant. Following is a brief summary of the major projects programmed in this CIP.

- ❑ ***Water Pollution Control Plant Reliability Improvements:*** \$2.0 million is programmed in this CIP to complete this project that will improve the Plant's ability to handle wet weather flows and improve the reliability of several of the Plant's critical systems such as headworks, filtration and major pumping stations. This project, which has a total cost of \$88.8 million and was awarded in February 2005, will also look at ways to improve the reliability and efficiency of producing recycled water, as well as water discharge to the bay.
- ❑ ***Plant Electrical Reliability:*** \$55.0 million is programmed in the CIP for major upgrades and replacements of electrical systems. This scope of work includes detailed electrical power distribution system analysis, increasing electrical power reliability by utilizing new technology, improved design, advanced monitoring and increased automation. Completed project costs are estimated to be \$63.2 million with the inclusion of \$8.2 million in 2007-2008 for the M5, Ring Buss, and Cable Replacement project.
- ❑ ***Alternative Disinfection:*** \$6.3 million is programmed in this CIP to design and construct facilities to replace the gaseous chlorine and sulfur dioxide system with liquid sodium hypochlorite and sodium bisulfite system. The presence of large quantities of chlorine and sulfur dioxide poses a risk of damage in an event of massive sudden release.

Water Utility System Capital Program

The San José Municipal Water System provides water utility service to approximately 26,500 customers (approximately 104,000 residents) in five areas within the City of San José: Evergreen, North San José, Alviso, Edenvale, and Coyote Valley. Projects in the Proposed CIP include the construction of new facilities, maintenance of existing infrastructure, and improvements to the Water Utility System facilities. Major projects in the CIP include the following:

- ❑ ***Rehabilitation and Replacement Projects:*** Several rehabilitation and replacement projects are scheduled in this CIP, including Forestwood Drive Main Replacement (\$1.0 million), the second year of a Water Valve Rehabilitation (\$175,000), Villa Vista Reservoir Rehabilitation (\$250,000), Reservoir System Seismic Retrofit (\$100,000), and Norwood Pump Station Replacement (\$850,000).
- ❑ ***System Development Projects:*** Several projects are designed to provide more capacity or better coverage, such as the Nortech Parkway East Loop Main (\$750,000), the North First Street

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA (CONT'D.)

ENVIRONMENTAL AND UTILITY SERVICES CSA (CONT'D.)

Water Utility System Capital Program (Cont'd.)

Parallel Main (\$1.7 million), and the Montague Turnout (\$325,000 to start this \$5.9 million project).

- ❑ **Recurring Projects:** Several ongoing projects are programmed to maintain the system and address system growth, including System Maintenance/Repairs (\$2.3 million in CIP), Infrastructure Improvements (\$2.2 million in CIP), Meter Installations (\$1.6 million in CIP), and Service Installations (\$1.9 million).

NEIGHBORHOOD SERVICES CSA

The Neighborhood Services CSA includes the Library and Parks and Community Facilities Development Capital Programs. These programs support the following CSA outcomes:



Rose Garden Branch Library

- ✓ *Safe and Clean Parks, Facilities and Attractions*
- ✓ *Vibrant Cultural Learning and Leisure Opportunities*

Library Capital Program

The City's library system is undergoing a major transformation as a result of the November 2000 voter-approved bond measure that approved the issuance of \$212 million in General Obligation bonds to improve the branch library system over a ten year period. This bond measure provided funding for the reconstruction or replacement of 14 of the 17 existing branches and the construction of six new branches in unserved neighborhoods. Major projects in the CIP and issues are discussed below.

- ❑ **Library Bond Projects:** Over the course of the 2007-2011 CIP, the build-out will be completed with the opening of three new branches and completion of ten expansion/relocation projects. In the 2007-2011 CIP, upward adjustments of \$17.0 million to the budgets for the Library Bond projects are proposed to address recent cost escalation. These increases will be mitigated through allocations of interest from bond sales and the use of the Bond Contingency Reserve. Listed below are the new and renovated branches that will be completed over this five-year period.

New Branches

- | | | |
|----------|------------|-------------|
| - Bascom | - Edenvale | - Southeast |
|----------|------------|-------------|

Renovated Branches

- | | | |
|-----------------|-------------------|----------------|
| - Cambrian | - Hillview | - Santa Teresa |
| - Calabazas | - Joyce Ellington | - Severtrees |
| - East San José | - Pearl | - Willow Glen |
| - Educational | | |

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA (CONT'D.)

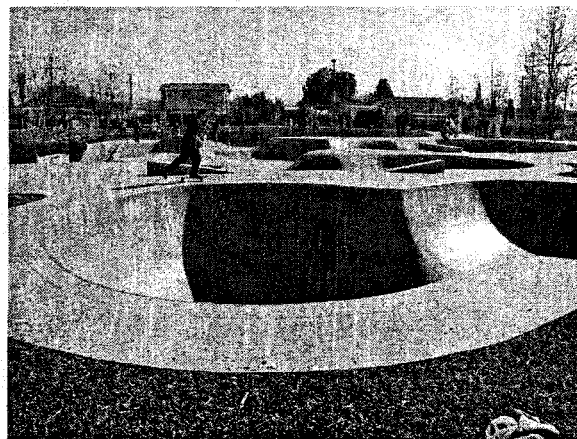
NEIGHBORHOOD SERVICES CSA (CONT'D.)

Library Capital Program (Cont'd.)

- ❑ ***Furniture, Fixtures and Equipment:*** \$6.4 million from the Library Construction and Conveyance Tax Fund is allocated to furniture, fixtures and equipment for the new facilities funded by bond proceeds, since the General Obligation Bond funding cannot be used for these items. The 2006-2007 Proposed Budget provides an allocation of \$931,000, which will ensure adequate funding to meet the projected need next year.

Parks and Community Facilities Capital Program

The Parks and Community Facilities Capital Program plans for and implements the acquisition, development, and protection of parks, recreation facilities, and open space to maintain a high quality of life in San José. Under the direction of the Parks, Recreation, and Neighborhood Services Department, the program provides oversight of the planning and development for approximately 3,500 acres of parks (regional/city-wide and neighborhood/community) and open space in the City's sphere of influence. In addition, the City has plans for implementation of a trails and greenways system that will provide a 100-mile network of hiking, biking, jogging, and equestrian trails along the Guadalupe River, Coyote and Los Gatos Creeks, Penitencia Creek, Saratoga/San Tomas Creek, and all major feeder streams.



Plata Arroyo Skatepark

The program is managed through the use of 17 funds, including 10 Council District funds, a City-wide fund for city-wide/regional facilities, a Parks Bond Fund, and five special purpose funds, as well as contributions from the General Fund and the San José Redevelopment Agency.

The City's Construction and Conveyance Tax revenue has historically been the primary source of support for this capital program. However, over the last few years, the Parks and Recreation Bond Projects Fund has provided a significant amount of resources to address capital needs in the City's various park facilities. On November 7, 2000, City voters approved Measure P, a \$228 million General Obligation Bond for park and recreational facilities improvements. This bond program provides funding over a 10-year period to renovate 95 neighborhood park play areas, renovate six community centers, add 3 new community centers, renovate 28 park restrooms, build two new sports complexes, expand the City's trail system at four locations, enhance four regional park facilities, including improvements and renovations at Happy Hollow Park and Zoo.

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA (CONT'D.)

NEIGHBORHOOD SERVICES CSA (CONT'D.)

Parks and Community Facilities Capital Program (Cont'd.)

- ❑ **Park Bond Projects:** The 2007-2011 Proposed CIP includes \$108 million for the construction of Bond projects. Over the course of this five-year CIP, four community centers will be renovated or built, sports fields will be developed, Happy Hollow Park and Zoo will be renovated, and several City trails will be expanded. Similar to the Library Capital Program, the 2007-2011 CIP includes upward adjustments of \$15.5 million to the budgets for the Parks Bond projects to address recent cost escalation. These increases will be mitigated through scope management, allocations of interest from bond sales, and the use of the Bond Contingency Reserve. In addition, supplemental funding of \$18.3 million from Construction and Conveyance Tax Funds, the Park Trust Fund, and the Redevelopment Agency is proposed to complete the community center projects and the Happy Hollow Park and Zoo renovation.

Listed below are the Parks Bond Projects in the 2007-2011 CIP:

- Bascom Community Center
- Coyote Creek Trail
(Phelan Avenue to Idlewood Court)
- Emma Prusch Memorial Park
- Guadalupe River Trail Reach VI
(Woz Way to Willow Street)
- Happy Hollow Park & Zoo
- Los Gatos Creek Trail Reach IV
- Mayfair Community Center
- Roosevelt Community Center
- Soccer Complex
- Softball Complex
- Solari Community Center



Camden Community Center

- ❑ **Park Trust Fund:** The Parks, Recreation and Neighborhood Services Department, with the assistance of the Finance Department, has completed a thorough reconciliation of the Park Trust Fund. The 2007-2011 CIP incorporates that reconciliation and includes funding of \$69.8 million, which has been allocated to various projects and reserves.

PUBLIC SAFETY CSA

The Public Safety CSA includes the Public Safety Capital Program, which supports the following CSA outcome:

- ✓ *The Public Feels Safe Anytime, Anywhere in San José*

**2006-2007 PROPOSED CAPITAL BUDGET
2007-2011 CAPITAL IMPROVEMENT PROGRAM**

CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA (CONT'D.)

PUBLIC SAFETY CSA (CONT'D.)

Public Safety Capital Program

The objective of the Public Safety Capital Program is to provide, maintain and improve facilities and equipment that support the delivery of effective emergency services to residents and visitors. The construction of a new police substation, a new public safety driver training center, four new fire stations including a developer-funded station, a renovated 9-1-1 communications dispatch center, the relocation of six existing fire stations, and the rebuilding of one fire station at its current location will provide the infrastructure to help meet this goal.

The major investment in Public Safety infrastructure included in this CIP is possible because the voters in San José supported investments in these facilities. On March 5, 2002, 71.7% of voters approved Measure O, the "9-1-1, Fire, Police, Paramedic and Neighborhood Security Act" Neighborhood Security Act Bond Measure. This bond measure authorized the City to issue General Obligation Bonds in an amount not to exceed \$159 million to fund both Police and Fire Department capital improvements. All of the projects funded by the Neighborhood Security Act Bond are scheduled to be underway during this five-year period.

In the 2007-2011 CIP, upward adjustments to many of the budgets for the Public Safety Bond projects are proposed to address recent cost escalation. Total fire station increases amounted to \$8.5 million, and increases to the Driver Safety Training, Police Substation, and West and South Community Policing Centers totaled \$2.5 million. These increases will be mitigated through allocations of interest from bond sales and the use of the Bond Contingency Reserve. The Bond Contingency Reserve was created in 2002-2003 by allocating 10% from each project to assist in ensuring that early costs, for elements such as property acquisition and existing facility renovations, would not result in insufficient funding for projects planned for the latter years of the program. As directed by the Mayor's March Budget Message, all changes to the Public Safety Bond projects will be discussed in a Manager's Budget Addendum that will be brought forward for City Council review.

Following are the major projects in the Proposed CIP.

□ *Public Safety Bond Projects:*

- South San José Police Substation: Completion scheduled for 3rd Qtr. 2009
- Driver Safety Training Center: Completion scheduled for 3rd Qtr. 2008
- 9-1-1 Communications Dispatch Center: Completion scheduled for 3rd Qtr. 2008
- South Community Policing Center: Completion schedule TBD
- East Community Policing Center: Completion schedule TBD
- West Community Policing Center: Completion scheduled for 2nd Qtr. 2006
- New Fire Station 34 (Berryessa): Completion scheduled for 2nd Qtr. 2007
- New Fire Station 35 (Cottle and Poughkeepsie): Completion scheduled for 3rd Qtr. 2007
- New Fire Station 37 (Willow Glen): Completion scheduled for 2nd Qtr. 2010
- Rebuild Fire Station 2 (Alum Rock Avenue): Completion scheduled for 2nd Qtr. 2008
- Relocate Fire Station 12 (Calero): Completion scheduled for 4th Qtr. 2007

2006-2007 PROPOSED CAPITAL BUDGET
2007-2011 CAPITAL IMPROVEMENT PROGRAM

CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA (CONT'D.)

PUBLIC SAFETY CSA (CONT'D.)

Public Safety Capital Program (Cont'd.)

❑ ***Public Safety Bond Projects: (Cont'd.)***

- Relocate Fire Station 17 (Cambrian): Completion scheduled for 4th Qtr. 2007
- Relocate Fire Station 19 (Piedmont): Completion schedule TBD
- Relocate Fire Station 21 (White Road): Completion schedule TBD
- Relocate Fire Station 25 (Alviso): Completion scheduled for 3rd Qtr. 2007
- Relocate Station 24/Construct Station 36 (Silver Creek/Yerba Buena): Completion scheduled for 3rd Qtr. 2008
- Fire Training Center: Completion schedule TBD
- Fire Station Upgrades: Multi-Phase

- ❑ ***Communications Hill Fire Station (Fire Station 33):*** The Communications Hill Specific Plan states that developers must build a turnkey fire station in order to complete initial development of Communications Hill. In addition, the developers have agreed to purchase fire apparatus, tools and equipment for the new station. This station is currently scheduled to be constructed in 2006-2007 and operational in 2007-2008.

- ❑ ***Fire Vehicle Replacement and Equipment:*** Funding from the Fire Construction and Conveyance Tax Fund and the General Fund continues to support many of the infrastructure needs in the Fire Department, including fire apparatus replacement and repair, facilities improvements, hose replacement, emergency response maps, handheld radios, heavy rescue airbags, traffic control equipment, general tools and equipment, computer replacement, records management, and data analysis.

- ❑ ***Information Technology:*** Several projects are designed to improve the department's use of technology to facilitate the delivery of service. These include the records management system, the Fire Department intranet, Fire Station network upgrades, tactical channel recorders, and computer aided dispatch pagers.

TRANSPORTATION AND AVIATION SERVICES CSA

The Transportation and Aviation Services CSA includes the Airport, Parking, and Traffic Capital Programs. These programs support the following CSA outcomes:

- ✓ *Provide Safe and Secure Transportation Systems*
- ✓ *Provide Viable Transportation Choices That Promote a Strong Economy*
- ✓ *Travelers Have a Positive, Reliable and Efficient Experience*
- ✓ *Preserve and Improve Transportation Assets and Facilities*
- ✓ *Provide a Transportation System That Enhances Community Livability*

2006-2007 PROPOSED CAPITAL BUDGET

2007-2011 CAPITAL IMPROVEMENT PROGRAM

CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA (CONT'D.)

TRANSPORTATION AND AVIATION SERVICES CSA (CONT'D.)

Airport Capital Program

The Proposed Airport Capital Program represents another significant change from the program presented in the 2006-2010 CIP. On November 15, 2005, the City Council approved revisions to the implementation of the Airport Master Plan following a three-day workshop held in September with Airport stakeholders and the City's aviation financial consultant, Ricondo and Associates. Two key findings resulted from this workshop: first, air passenger demand volume originally projected for the year 2010 (17.6 million) is now projected to be reached in 2017 and second, the continued implementation of the Master Plan needs to be limited to \$1.2 to \$1.5 billion. Input from a variety of stakeholders was used to develop a facility that will meet the community and customers' needs as well as keep costs low. Following is a discussion of major projects and issues.

- ❑ ***Terminal Area Development, Phase I:*** This allocation's total proposed budget is \$417.8 million and it funds several projects including: Terminal A improvements, the first half of Terminal B, a Temporary Terminal C passenger processing facility, the demolition of Terminal C, roadway improvements, landscaping and signage. A number of these projects, which are anticipated to be a part of a design-build contract, are scheduled for award in fall 2006.
- ❑ ***Consolidated Rental Car Facility:*** This facility, which was formerly the Rental Car Garage, the Public Parking Garage, and Central Garage Phases I through III, has been rescoped in the 2007-2011 Proposed CIP to coincide with the rephased Airport Master Plan. This project will design and construct a multi-level, 4,000 to 6,000 space rental car facility that will include ready/return parking and a quick turn-around for rental car washing, fueling and minor servicing.
- ❑ ***West Side Airfield Reconstruction:*** \$21.3 million is programmed in the 2007-2011 Proposed CIP to design and construct an asphalt overlay of approximately 121,000 square feet on portions of Taxiways V and C. Funding programmed in 2009-2010 represents the extension of Taxiway W, which is contingent upon further analysis.

Parking Capital Program

The Parking Capital Program's primary responsibilities are to maintain and improve existing facilities, upgrade and replace both on-street and off-street parking equipment, and develop parking facilities.

As part of the implementation of the San José Redevelopment Agency's (SJRA's) Strategy 2000 – Greater Downtown Strategy for Development, a Parking Management Plan (PMP) was developed in 2001 to address both short-term and long-term parking needs. Since its approval in 2001, the priority, need, and schedules of specific projects identified in the PMP have been significantly impacted by the downturn in the economy as well as by changes in the supply and demand for parking. Downtown office vacancy rates remain above 20% and there has been reduced daytime demand for parking that is expected to remain flat at least through 2007.

2006-2007 PROPOSED CAPITAL BUDGET 2007-2011 CAPITAL IMPROVEMENT PROGRAM

CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA (CONT'D.)

TRANSPORTATION AND AVIATION SERVICES CSA (CONT'D.)

Parking Capital Program (Cont'd.)

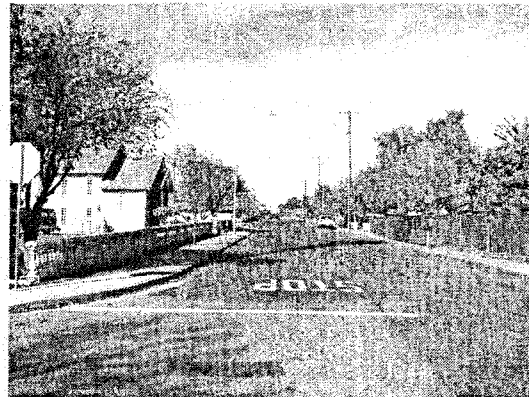
In the fall of 2005, the City Council directed staff to update the 2001 Parking Management Plan (PMP) to reflect the current and future supply/demand, review the free parking program, and to recommend parking priorities for the next five years. After review by the Downtown Parking Board, the updated plan will be presented to the City Council in June 2006. Following is a brief summary of the capital-related activity in the General Purpose Parking Fund.

- ❑ ***Parking System Improvements:*** The Proposed CIP includes funding for the 2nd and San Carlos Street Garage Seismic Upgrade project; to implement Phase II of the Parking Guidance System that will include roadway signs to direct motorists to the parking facilities; to continue replacing the Parking Revenue Control System at several garages and lots; and to perform ongoing facility improvements.

Traffic Capital Program

The mission of the Traffic Capital Program is to implement a safe, efficient, and environmentally sensitive surface transportation system, consistent with the goals and policies of the City's General Plan. In the 2007-2011 Proposed Traffic CIP, \$227.7 million is allocated for the purposes of expanding and enhancing the transportation system. These resources are programmed to ensure that the transportation system supports the economic competitiveness of San José and provides residents with safe and attractive street facilities in their neighborhoods.

The investments approved as part of the 2007-2011 Proposed CIP include funding for the build out of the major street network (\$15.1 million); enhancements to the environment (\$985,000); maintenance activities (\$38.2 million); an array of operations and safety projects at the neighborhood level, including traffic calming, bicycle and pedestrian facilities, and new traffic signals (\$45.0 million); rehabilitation projects (\$12.1 million); funding to support the City's contribution to regional highway and transit systems (\$4.9 million); and planning and engineering for local and regional projects (\$20.6 million); and reserves and transfers (\$88.2 million).



Towers Lane

Following is a discussion of some of the highlights of the Traffic CIP.

- ❑ ***Arterial and Collector Projects:*** The Proposed CIP funds the development of arterial and collector projects throughout the City, including development of a pedestrian corridor from San José State University (SJSU) to Japantown and improvements to Branham Lane and Union Avenue.

2006-2007 PROPOSED CAPITAL BUDGET
2007-2011 CAPITAL IMPROVEMENT PROGRAM

CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA (CONT'D.)

TRANSPORTATION AND AVIATION SERVICES CSA (CONT'D.)

Traffic Capital Program (Cont'd.)

- ❑ ***Reserve for VTP 2030 Projects:*** During 2004-2005, the Santa Clara Valley Transportation Agency (VTA) updated its 30-year regional transportation master plan referred to as Valley Transportation Plan 2030 (VTP 2030). The plan includes an inventory of projects eligible for future regional transportation grant funding. To support the City's Council-adopted priorities in the VTP 2030, a reserve was first established in the 2005-2009 CIP in the amount of \$11.3 million to begin to provide necessary local matching funds. In both the 2006-2010 CIP and the 2007-2011 CIP, additional funding has been allocated to this reserve, which is now proposed at \$24.9 million.
- ❑ ***Advance Engineering to Ensure Grant Readiness:*** Several of the investments in the Proposed CIP provide advance engineering to bring projects to a state of readiness to help them compete for regional funding. This strategy of proactively planning to leverage new State and federal funds is a continuation of the Traffic Program's successful record in leveraging significant grant funds by investing in upfront planning. Recent examples include the City's \$35 million investment in the Route 87 Freeway project, which generated \$225 million in State and federal funding; the City's \$9 million investment in the Route 880: Coleman interchange, which generated \$71 million in State and federal funding; and the City's \$1.5 million investment in the Route 880: Stevens Creek Interchange project, which has secured a \$12 million earmark in the pending federal transportation bill.
- ❑ ***Street Maintenance:*** In this Proposed CIP, capital funding for street maintenance continues to fall well below levels required to adequately maintain pavement condition. A combined total funding of \$18.2 million in the Proposed Operating and Capital Budgets is programmed in 2006-2007 for this purpose, which is slightly more than half of the \$34 million annual investment considered necessary in the City's 10-Year Street Maintenance Recovery Plan. As a result of this shortfall in funding, it is estimated that City streets condition ratings will slip from 81% to 73% of streets rated fair or better by 2011. Pending the development of an adequate local funding strategy, Department of Transportation staff will continue to actively seek outside funding opportunities to help address this shortfall in the coming years. Key strategies being pursued include securing increased federal funds, restoring State Proposition 42 transportation revenues, and advocating for pavement maintenance funding as part of a potential new county-wide transportation tax measure.
- ❑ ***Reserve for Transportation Infrastructure Maintenance Backlog:*** The Proposed CIP includes \$5.3 million in one-time funds from the General Fund proposed to be used to address a portion of the significant backlog of transportation maintenance needs such as street maintenance and traffic signals.

2006-2007 PROPOSED CAPITAL BUDGET 2007-2011 CAPITAL IMPROVEMENT PROGRAM

CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA (CONT'D.)

STRATEGIC SUPPORT CSA

The Strategic Support CSA includes the Civic Center, Communications, Municipal Improvements, and the Service Yards Capital Programs. These programs support the following CSA outcomes:

- ✓ *Safe and Functional Public Infrastructure, Facilities and Equipment*
- ✓ *Effective Use of State-of-the-Art Technology*

Civic Center Capital Program

The Civic Center Capital Program is responsible for constructing the new City Hall and associated parking facilities. The new City Hall includes approximately 530,000 square feet of office and public space. Major components of this project include an 18-story office tower, a council chamber wing, an open public plaza with a rotunda, plus a 372-vehicle underground parking garage to serve the visiting public and some staff. Occupancy of this new facility occurred in mid-2005 with the off-site garage scheduled for completion in the fall of 2006. The 2007-2011 Proposed CIP includes the following.

- ❑ ***New City Hall Off-Site Garage Project:*** \$1.0 million is programmed in this CIP to complete the City Hall Parking Garage.
- ❑ ***Reserve for Capital Improvements:*** \$8.7 million is programmed as a reserve in this CIP and represents the estimated interest earnings from the City Hall bond proceeds that are now considered available for other eligible uses as defined by financing restrictions. These funds had originally been set aside as a project reserve to address any higher than expected costs. Staff will bring forward recommendations for the use of this reserve during this year's budget process.

Communications Capital Program

The guiding objective of the Communications Capital Program is the provision of reliable, necessary public safety and non-public safety-related communications equipment for all City employees that require this equipment for their jobs. A summary of the major projects in this CIP is provided below.

- ❑ ***Communications Equipment Replacement and Upgrade:*** \$5.0 million is allocated in this CIP to the equipment replacement and upgrade project, which entails replacing a large portion of the communications equipment over the next five years.
- ❑ ***Police Dispatch Voting Receivers:*** \$793,000 is allocated in this CIP to install additional police voting receivers and upgrade signal conditioning devices at existing radio sites. This project will increase radio coverage across adjoining police districts.

2006-2007 PROPOSED CAPITAL BUDGET 2007-2011 CAPITAL IMPROVEMENT PROGRAM

CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA (CONT'D.)

STRATEGIC SUPPORT CSA (CONT'D.)

Municipal Improvements Capital Program

The Municipal Improvements Capital Program provides capital improvements for City facilities that are not funded in other capital programs. The General Fund typically supports these projects. The 2007-2011 Proposed CIP includes the following ongoing allocations: HP Pavilion Repairs (\$500,000); Fuel Tank Monitoring (\$250,000); Closed Landfill Compliance (\$1.25 million); and Unanticipated/Emergency Maintenance (\$1.0 million).

In addition, a new General Fund project (Facilities Infrastructure Maintenance Backlog) in the amount of \$1 million is proposed to start addressing the significant backlog of deferred maintenance in City facilities.

Service Yards Capital Program

The objective of the Service Yards Capital Program is to maintain and improve the existing conditions at the Service Yards by implementing projects to reduce safety hazards, increase efficiencies, and provide necessary equipment and materials for operations. While ongoing funding is allocated to address general capital improvement needs, the majority of funding in this capital program is set aside for the Central Service Yard Phase II project.

- ❑ **Central Service Yard Phase II:** The Central Service Yard Phase II project began in 2005-2006 and is expected to be completed in 2007-2008. The financing strategy includes the sale of commercial paper, bonds, surplus property proceeds, and fund balance. Once this project is complete, the Main Yard will be vacated, demolished, and redeveloped.
- ❑ **Central Service Yard Phase I Debt Service:** Continuing a General Fund budget balancing strategy approved in 2003-2004, \$878,000 from the Service Yards Construction and Conveyance Tax Fund will be allocated to fund one half of the Central Service Yard Phase I Debt Service costs in 2006-2007 and 2007-2008. After 2007-2008, it is anticipated that the General Fund will resume responsibility for these payments.

MEASURING CAPITAL PROGRAM PERFORMANCE

A set of performance measures has recently been introduced to assess capital program performance based on schedule (cycle time), cost, quality, and customer satisfaction. These measures are designed to provide uniformity and consistency, provide clear and measurable outcomes, and to encourage CSA teams and departments to consider total requirements for service delivery, including capital facilities and assets. In the 2007-2011 CIP, one- and two-year performance targets are presented for each of these performance measures. In addition, estimated performance results for 2005-2006 are provided for each of the targets. City-wide results are summarized in the Budget Guide and individual CSA results are discussed in the CSA Overview sections.

2006-2007 PROPOSED CAPITAL BUDGET 2007-2011 CAPITAL IMPROVEMENT PROGRAM

MEASURING CAPITAL PROGRAM PERFORMANCE (CONT'D.)

In 2005-2006, an estimated 81% of finished projects are expected to be completed on time. This number represents an improvement over the prior year performance of 76%, but remains somewhat below the target of 85%. For this measure, performance was impacted by a number of factors, typically including the additional time for coordination with other agencies, extended community processes, complications during the rehabilitation of existing structures, and delays due to the wet weather. The estimated 2005-2006 on-budget performance of 80% is also below the standard of 90% that has been established for this category. Some projects went over budget due to project schedule-related delays and higher than estimated right-of-way costs and utility conflicts. In terms of quality, 74% of the operations and maintenance division rated the new and rehabilitated facilities as functional and sustainable after the first year, which is slightly below the target of 80%. Similarly 79% of customers rated the new or rehabilitated projects as meeting established goals (4 or better based on a scale of 1 to 5), which is below the target of 85%.


Over the past few years, there has been an emphasis on delivering capital projects on-time and on-budget. Staff will continue with these efforts and will expand the focus to address quality and customer satisfaction. Survey results are being analyzed for both of these measurements to determine what type of improvements should be incorporated into future projects.

CONCLUSION

The City of San José's 2007-2011 Proposed CIP represents a significant investment in the City's infrastructure. Capital projects are being delivered at a record pace, bringing with them improvements that will benefit neighborhoods, residents and visitors for decades to come while preparing the City for future economic development and growth. Over the next five years, the North Concourse will be completed along with other major renovations to the Airport; several new libraries, fire stations, community centers, and the South San José Police Substation will be opened; and the Water Pollution Control Plant will have been upgraded to increase its wet weather capacity.

This large number of capital projects does, however, present a major challenge in terms of identifying sufficient funds to operate and maintain these facilities. By 2010-2011, it is estimated that operating and maintenance costs required for these new facilities will add as much as \$26.7 million annually to the General Fund's operating budget. These additional City expenses will clearly exacerbate the challenge of closing the structural deficit created by existing programs.

The development of the Proposed Capital Budget and CIP is a collaborative effort involving staff from each CSA. Input from the City Council and community members is incorporated to ensure that that overall capital program reflects the needs and priorities of our residents and visitors. I want to acknowledge the outstanding efforts provided by the many employees who made direct contributions to the analysis and production of this CIP and this document.


Les White
City Manager